

Message Text

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ACTION EUR-12

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R 262201Z MAY 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 6855
INFO ALL EC CAPITALS
AMEMBASSY BELGRADE
AMEMBASSY MOSCOW
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C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 10367

USEEC

E.O. 11652: GDS
TAGS: EEC, YU
SUBJ: US/EC CONSULTATIONS MAY 25: YUGOSLAVIA

1. SUMMARY: SEPTELS REPORT DISCUSSION IN RESTRICTED
POLITICAL SESSION OF EC-CEMA RELATIONS AND TURKEY. THE
FIRST OF THOSE TELEGRAMS LISTS PARTICIPANTS IN THE
DISCUSSIONS. ON YUGOSLAVIA, EC COMMISSIONER HAFERKAMP
SAID THAT SINCE AN EC-YUGOSLAV ECONOMIC FRAMEWORK AGREE-
MENT CANNOT BE CONCLUDED ON THE BASIS OF THE EC COUNCIL
MANDATE UNDER WHICH THE COMMISSION IS PRESENTLY
NEGOTIATING, THE COMMISSION IS MAKING RECOMMENDATIONS
TO THE COUNCIL FOR AN IMPROVED MANDATE. HAFERKAMP AND
COMMISSION COLLEAGUES SAID THAT A MAJOR PROBLEM IN THE
NEGOTIATIONS IS THAT THE YUGOSLAVS HAVE NOT DECIDED
EXACTLY WHAT KIND OF AGREEMENT AND WHAT TYPE OF
PRIVILEGED POSITION THEY WANT WITH THE EC. HOWEVER,
COMMISSION OFFICIALS PROFESSED CAUTIOUS OPTIMISM THAT
THINGS WILL WORK OUT SATISFACTORILY. END SUMMARY.
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2. IN OPENING THE DISCUSSION OF EC-YUGOSLAV RELATIONS,
HAFERKAMP NOTED THAT THE COMMISSION HAD INITIALLY
PREPARED A SOMEWHAT MORE GENEROUS MANDATE THAN THE ONE
ULTIMATELY APPROVED BY THE EC COUNCIL, BUT THAT "AS
USUAL THE COUNCIL CUT US DOWN." HE SAID THAT GIVEN
YUGOSLAVIA'S REACTIONS IN THE EARLY STAGES OF THE

NEGOTIATIONS, IT IS CLEAR THAT THERE CAN BE NO AGREEMENT ON THE BASIS OF THE PRESENT MANDATE; HENCE THE COMMISSION IS RECOMMENDING IMPROVEMENTS TO THE COUNCIL. ACCORDING TO HAFERKAMP, THE COMMISSION RECOMMENDS ACCEPTABLE TRADING ARRANGEMENTS, THE INCLUSION IN THE FRAMEWORK AGREEMENT OF A SOCIAL CHAPTER GOVERNING YUGOSLAV LABOR AS DESIRED BY BELGRADE, AND CREDITS FOR YUGOSLAVIA FROM THE EUROPEAN INVESTMENT BANK. HAFERKAMP SAID THAT BEYOND THESE RATHER STANDARD RECOMMENDATIONS, THE COMMISSION IS ALSO SUGGESTING A "NEW IDEA" WHICH WOULD ENTAIL THE CREATION OF A WEST EUROPEAN CONSORTIUM TO ASSIST YUGOSLAVIA. HAFERKAMP SAID THIS CONSORTIUM COULD CONSIST OF THE EIB AND PRIVATE LENDING INSTITUTIONS WHICH COULD CREATE LINKS WITH YUGOSLAVIA AND "ASSURE THE YUGOSLAVS ACCESS TO NORMAL CAPITAL MARKETS". IN RETURN, THE EC WOULD ASK YUGOSLAVIA TO ACCEPT "NORMAL RULES" RELATING TO CAPITAL FLOWS AND OTHER WESTERN FINANCIAL AND BANKING PRACTICES. HAFERKAMP SAID HE THINKS THE YUGOSLAVS ARE READY TO ACCEPT SOME SUCH ARRANGEMENT, ADAPTING THEMSELVES MORE TO WESTERN BANKING MODES.

3. HAFERKAMP ALSO SAID THE COMMISSION IS DEVELOPING SOME IDEAS REGARDING INDUSTRIAL COOPERATION. NOTING THAT EC LENDERS ALREADY HAVE MANY INVESTMENTS IN YUGOSLAVIA, HAFERKAMP SAID THAT WHILE THE EC AS AN INSTITUTION CANNOT GUARANTEE FURTHER INVESTMENTS FOR YUGOSLAVIA FROM EC
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MEMBER COUNTRIES, IT CAN TAKE STEPS TO FACILITATE SUCH INVESTMENTS BY PRIVATE LENDING INSTITUTIONS.

4. UNDER SECRETARY COOPER ASKED WHAT WILL HAPPEN IF THE CURRENT TRADE AGREEMENT EXPIRES THIS SUMMER BEFORE THE CONCLUSION OF THE NEW BROADER ECONOMIC FRAMEWORK AGREEMENT. COMMISSION SIDE NOTED THAT THE PRESENT AGREEMENT COULD BE EXTENDED, PERHAPS A YEAR AT A TIME. HAFERKAMP WORRIED, HOWEVER, THAT FAILURE TO CONCLUDE A NEW AGREEMENT MIGHT HAVE UNDESIRABLE POLITICAL EFFECTS ON EC-YUGOSLAV RELATIONS AND IN REGARD TO YUGOSLAVIA'S CONTINUED BALANCING ACT BETWEEN EAST AND WEST.

5. HAFERKAMP AND SIR ROY DENMAN, COMMISSION DIRECTOR GENERAL FOR EXTERNAL RELATIONS, HEAVILY UNDERLINED THE EC'S FEELING OF RESPONSIBILITY TOWARD YUGOSLAVIA GIVEN ITS GEOGRAPHIC AND STRATEGIC POSITION AND ITS POLITICAL PROBLEMS, AND SAID THAT THE COMMUNITY DOES BELIEVE THAT IT SHOULD DO SOMETHING TO HELP YUGOSLAVIA MAINTAIN ITS BALANCE. THE QUESTION IS, WHAT REALLY CAN BE DONE? HAFERKAMP, DENMAN AND THE OTHER COMMISSION OFFICIALS PRESENT THEN ENLARGED ON YUGOSLAVIA'S INABILITY TO DATE

TO TELL THE COMMUNITY EXACTLY WHAT KIND OF AGREEMENT IT WANTS. COMMISSION OFFICIALS SAID THE RATHER GENERAL DRAFT AGREEMENT PROVIDED THE COMMISSION BY THE YUGOSLAV GOVERNMENT IN APRIL DOES NOT REALLY ADDRESS THIS QUESTION. ACCORDING TO DENMAN, THE YUGOSLAVS WANT TO BE REASSURED ABOUT THE FUTURE AND KNOW THAT THEY WILL HAVE "SOME KIND OF SPECIAL RELATIONSHIP," BUT HAVE NOT TO DATE BEEN ABLE TO ANSWER COMMISSION QUESTIONS ABOUT EXACTLY WHAT KIND OF AGREEMENT THEY WANT--E.G., A PREFERENTIAL AGREEMENT, AN ARRANGEMENT VERGING ON ASSOCIATE STATUS, OR WHATEVER. ACCORDING TO DENMAN, THERE IS MUCH FERMENT AND DISCUSSION NOW GOING ON IN BELGRADE AS TO WHAT THE RELATIONSHIP WITH

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THE EC OUGHT TO BE, BUT APPARENTLY THE YUGOSLAVS HAVE REACHED NO FIRM CONCLUSIONS. DENMAN SAID THAT, INTER ALIA, YUGOSLAVS APPEAR NOT TO HAVE MADE UP THEIR MINDS ABOUT THE LIMITS OF SOVIET TOLERANCE IN TERMS OF YUGOSLAV-EC RELATIONS. OTHER COMMISSION OFFICIALS NOTED THAT IT IS ALSO LIKELY THAT THE YUGOSLAVS ARE PARTLY ENGAGED IN TACTICAL PROBING TO SEE JUST HOW FAR THE EC WILL GO IN ITS OFFERS TO YUGOSLAVIA.

6. IN SUPPORT OF DENMAN'S POINTS, HAFERKAMP ARGUED THAT IT IS IN YUGOSLAVIA'S INTEREST TO HAVE A FLEXIBLE AGREEMENT WITH THE COMMUNITY WHICH CAN EVOLVE OVER THE LONG TERM. ACCORDING TO HAFERKAMP, YUGOSLAVIA DOES NOT

NEED "SUBSTANTIVE SACRIFICES FROM THE EC--FOR EXAMPLE,
ON BABY BEEF. THEY SHOULD BE GIVEN A SPECIAL
RELATIONSHIP WHICH CAN, IN THEIR INTEREST, BE DEVELOPED
OVER TIME, AS THEIR ECONOMY DEVELOPS. WE SHOULD
ESTABLISH THE FRAMEWORK NOW FOR AN ORGANIC EVOLUTION."
HAFERKAMP SAID THAT IN THE PROPOSALS IT WILL SEND TO THE
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EC COUNCIL, THE COMMISSION HOPES TO LAY THE BASIS FOR
SUCH A FLEXIBLE EVOLUTIONARY AGREEMENT.

7. RECALLING PREVIOUS US-EC DISCUSSIONS REGARDING PARALLEL
US AND EC APPROACH TO THE YUGOSLAVS TO ENCOURAGE MEASURES
TO FACILITATE WESTERN BUSINESS IN YUGOSLAVIA, AMBASSADOR
HINTON SPECULATED THAT THE YUGOSLAVS WILL HAVE NO
INCENTIVE TO MAKE THINGS EASIER FOR EUROPEAN AND AMERICAN
BUSINESS FIRMS AND INVESTORS UNLESS THE WEST CAN PROVIDE
TRADE, AID, AND OTHER CARROTS. HAFERKAMP ACKNOWLEDGED
THAT THIS IS TRUE AND SAID THAT IN ITS PROPOSALS TO THE
COUNCIL THE COMMISSION HOPES TO PROVIDE THE KIND OF
INCENTIVES THAT WOULD MAKE BELGRADE MORE AMENABLE TO OUR
RESPECTIVE EFFORTS.

8. HAFERKAMP NOTED IN CONCLUSION THAT IT IS NOT EASY FOR
A SYSTEM SUCH AS YUGOSLAVIA'S, WHICH HE CONSIDERS STILL
RELATIVELY MONOLITHIC, TO TAKE INITIATIVES TENDING TO MOVE
THE COUNTRY IN NEW DIRECTIONS. HE SAID, HOWEVER, THAT
THERE ARE NOW HOPEFUL SIGNS IN YUGOSLAVIA AND THAT THE
WEST SHOULD WORK TO DEVELOP THESE TENDENCIES FURTHER.
HINTON

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